

**KARL G. MAESER
PREPARATORY ACADEMY**

**FINANCIAL STATEMENTS
AND OTHER REPORTS**

Year Ended June 30, 2008

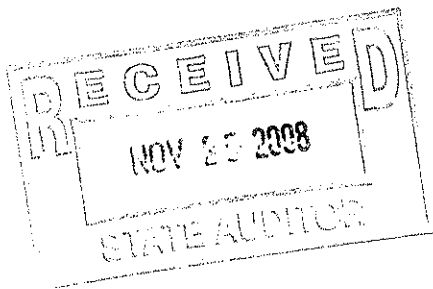


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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Karl G. Maeser Preparatory Academy

We have audited the statement of financial position of Karl G. Maeser Preparatory Academy (a nonprofit organization) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Karl G. Maeser Preparatory Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Karl G. Maeser Preparatory Academy as of June 30, 2008, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2008 on our consideration of Karl G. Maeser Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Squire & Company, PC

November 20, 2008

KARL G. MAESER PREPARATORY ACADEMY
STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

Current Assets:

Cash	\$ 255,170
Accounts receivable	1,143
Deposits	<u>15,000</u>
Total current assets	271,313

Capital Assets , net of accumulated depreciation	<u>57,364</u>
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Total assets	<u><u>\$ 328,677</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 20,103
Payroll and related benefits payable	1,357
Deferred revenue	29,476
Current portion of note payable	<u>7,097</u>
Total current liabilities	58,033

Note Payable , net of current portion	<u>108,318</u>
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Total liabilities	166,351
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Net Assets:

Unrestricted:	
Designated for capital assets	57,364
Undesignated	103,023
Temporarily restricted	<u>1,939</u>
Total net assets	<u>162,326</u>

Total liabilities and net assets	<u><u>\$ 328,677</u></u>
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The accompanying notes are an integral part of this financial statement.

KARL G. MAESER PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Unrestricted Net Assets:

Revenues and Support:

Federal	\$ 147,434
State	994,715
Local:	
Student activities	93,061
Contributions	9,932
Interest	81
Other	<u>1,151</u>
Total revenues and support	1,246,374

Expenses:

Program Services:

School:	
Salaries	490,144
Employee benefits	119,586
Professional and technical services	24,272
Purchased property services	172,293
Other purchased services	48,760
Supplies	125,055
Property	47,886
Other	<u>21,079</u>
Total program services	1,049,075

Support Services:

Management and general	<u>32,587</u>
Total expenses	<u>1,081,662</u>

Change in unrestricted net assets	164,712
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Temporarily Restricted Net Assets:

Contributions	<u>1,939</u>
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Change in Net Assets	166,651
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Net Deficiency in Assets at Beginning of Year	<u>(4,325)</u>
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Net Assets at End of Year	<u><u>\$ 162,326</u></u>
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The accompanying notes are an integral part of this financial statement.

KARL G. MAESER PREPARATORY ACADEMY
STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

Cash Flows from Operating Activities:

Change in net assets	\$ 166,651
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	25,549
In-kind donations	(9,000)
Changes in operating assets and liabilities:	
Accounts receivable	(1,136)
Accounts payable	20,518
Payroll and related benefits payable	1,357
Deferred revenue	<u>(33,555)</u>
Total adjustments	<u>3,733</u>
Net cash provided by operating activities	170,384

Cash Flows from Investing Activities:

Purchases of capital assets	(64,828)
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Cash Flows from Financing Activities:

Proceeds from issuance of note payable	115,000
Repayment of related party notes payable	<u>(37,500)</u>
Net cash provided by financing activities	<u>77,500</u>

Net Change in Cash 183,056

Cash at Beginning of Year 72,114

Cash at End of Year \$ 255,170

Supplemental Information:

The School paid \$1,840 in interest and paid no income taxes for the year ended June 30, 2008.

The School received a bus with a fair value of \$9,000 during the year ended June 30, 2008.

The accompanying notes are an integral part of this financial statement.

KARL G. MAESER PREPARATORY ACADEMY NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Organization and Activities – Karl G. Maeser Preparatory Academy (the School) was incorporated on March 17, 2006, and is a nonprofit organization involved in public education. The School operates a public charter school in Lindon, Utah, for students from ninth through twelfth grade.

Income Taxes – The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity.

Capital Assets – The School capitalized all expenditures in excess of \$500 for property and equipment at cost. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation is calculated using the straight-line depreciation method, over the estimated useful lives of the assets.

Donated Services and Equipment – During the year ended June 30, 2008, the School recognized \$9,000 in revenue for the fair market value of a donated bus.

No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, fundraising, and Board responsibilities.

Financial Statement Presentation – The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets consist of \$1,939 restricted for science supplies at June 30, 2008.

Revenue Recognition – Operating funds for the School are derived from federal, state, and local funds. The School receives state funding based on the number of students enrolled in the School. The School also receives federal and state grants on a reimbursement basis. Accordingly, grant revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met. Amounts of restricted grants received in excess of expenditures are recorded as deferred revenue. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted funds first, then unrestricted resources as they are needed.

Allocation of Expenses – Directly identifiable expenses are charged to programs and supporting services. Management and general and fundraising expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the School.

KARL G. MAESER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising— Advertising costs are charged to expense as incurred and totaled \$971 for the year ended June 30, 2008.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and support and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Concentrations

At June 30, 2008, the School's book balance of cash accounts totaled \$255,170. The bank balance was \$261,149, of which \$100,000 was covered by federal depository insurance.

The majority of the School's revenue comes from the U.S. Department of Education (passed through the State Office of Education) and the State of Utah. Federal and state revenues were 91 percent of total revenues and support for the year ended June 30, 2008.

Note 3. Capital Assets

Capital assets consisted of the following at June 30, 2008:

	Amount	Depreciable Lives (Years)
Vehicles	\$ 12,000	5
Equipment	39,362	2 to 10
Leasehold improvements	31,718	1 to 2
	83,080	
Accumulated depreciation	(25,716)	
	<u>\$ 57,364</u>	

Depreciation expense totaled \$25,549 for the year ended June 30, 2008.

Note 4. Commitments

The School entered into a 22-month lease agreement for facilities commencing in August 2007. The terms of the lease agreement require monthly payments of \$15,000 for the first year and \$16,500 for each month thereafter. Lease payments under this agreement totaled \$150,000 for the year ended June 30, 2008. Future minimum lease payments remaining under this lease agreement are \$180,000.

KARL G. MAESER PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS

Note 5. Note Payable

During the year ended June 30, 2008, the School entered into a \$115,000, 5-year, unsecured note payable with the Utah State Office of Education. Interest accrues on the note at 1.44 percent. Monthly payments of \$2,503 will begin April 2009 and will continue through March 2013. Accrued interest on the note payable totaled \$415 at June 30, 2008.

Future maturities of the note payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2009	\$ 7,097
2010	28,643
2011	29,058
2012	29,479
2013	<u>22,390</u>
	116,667
Amount representing accrued interest	<u>(1,252)</u>
	115,415
Current portion	<u>(7,097)</u>
Long-term portion	<u><u>\$ 108,318</u></u>

Note 7. Related Party Transactions

The School paid a board member's spouse as an independent contractor and then hired the spouse as an employee. This individual was paid \$14,050 for services rendered during the year ended June 30, 2008.

During the year ended June 30, 2007, a board member loaned \$37,500 to the School. This note was retired with interest at 7 percent during the year ended June 30, 2008.

Note 8. Retirement Plans

The School has established a 401(k) retirement plan. The plan is administered by The Hartford Group. Employer contributions vest to the employee at a rate of 20 percent per year. All employees who are 21 and have one month of service are eligible to participate in the plan. Employer discretionary contributions are determined by the Board of Directors on an annual basis and were 6 percent of gross wages for the year ended June 30, 2008. The School contributed \$22,230 during the year ended June 30, 2008. No amounts were payable to the plan at June 30, 2008.

KARL G. MAESER PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS

Note 8. Subsequent Events

Subsequent to June 30, 2008, the School's former director filed suit against the School asserting claims for wrongful termination, breach of contract, and disparagement. Management intends to vigorously defend itself against this claim. No loss contingency has been accrued by the School at June 30, 2008.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Karl G. Maeser Preparatory Academy

We have audited the financial statements of Karl G. Maeser Preparatory Academy (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Karl G. Maeser Preparatory Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Karl G. Maeser Preparatory Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Karl G. Maeser Preparatory Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Cash Receipts – The School does not have appropriate internal controls in place to ensure that all cash received at the School is deposited into the School's accounts.

We recommend that the School implement and document procedures to minimize the risk of misappropriation of assets. Receipts should be issued for all cash received, and receipt logs and other documentation should be reconciled to deposits by an individual not involved in the process.

Views of Responsible Officials – The School instructed employees receiving deposits to issue receipts, make deposits in a timely manner, and to report deposits to the bookkeeper for reconciliation purposes. These instructions were not followed. Personnel previously handling cash receipts are no longer handling cash receipts.

Management notes that cash receipts are a small fraction of total revenue, less than 1% in total. Additionally, although the employees were not following the process as instructed, there was a segregation of duties and controls. The secretaries received the cash and deposited it and the bookkeeper kept records of student fees and fee balances and also sent out statements. This served as a control on potential fraud as it allowed parents to verify if payments were missing to the bookkeeper. If any payments were missing, it would have been reported to the bookkeeper by parents on receipt of their fee balances statement. No such reports were ever received.

Personnel now handling cash receipts have been instructed to follow documented policies as follows:

- The School's secretary issues numbered receipts for all cash received.
- All cash received is deposited in a timely manner.
- The Operations Manager is responsible for verifying that cash deposited matches receipts issued.
- Deposit tickets and bank transaction receipts, along with a detailed record of each cash receipt is given to the Business Manager and matched to the bank statement. Discrepancies are investigated and resolved.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by an entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Karl G. Maeser Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Karl G. Maeser Preparatory Academy in a separate letter dated September November 20, 2008.

Karl G. Maeser Preparatory Academy's response to the finding in our audit is described above. We did not audit Karl G. Maeser Academy's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Squire & Company, PC

November 20, 2008

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Independent Auditor's Report on Legal Compliance in Accordance with the *State of Utah* *Legal Compliance Audit Guide*

Board of Directors
Karl G. Maeser Preparatory Academy

We have audited the financial statements of Karl G. Maeser Preparatory Academy (a nonprofit organization) for the year ended June 30, 2008, and have issued our report thereon dated November 20, 2008. As part of our audit, we have audited Karl G. Maeser Preparatory Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2008. Karl G. Maeser Preparatory Academy received the following major assistance program from the State of Utah (passed through the State Office of Education):

Minimum School Program

Management of Karl G. Maeser Preparatory Academy is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Karl G. Maeser Preparatory Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Karl G. Maeser Preparatory Academy complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2008.

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November 20, 2008

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Letter to Management

November 20, 2008

Board of Directors
Karl G. Maeser Preparatory Academy

In planning and performing our audits of the financial statements of Karl G. Maeser Preparatory Academy (the School) for the year ended June 30, 2008, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 20, 2008 on the financial statements of the School. Also, significant deficiencies and material weaknesses, if any, are included in our reports dated November 20, 2008 in accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

Matters for your consideration:

Payroll Authorization – The School has a policy that all payroll reports are to be reviewed by a member of the Board. We reviewed several payroll reports and noted that not all payroll reports had been reviewed by a Board member. We recommend that the School follow its documented policies and procedures.

Views of Responsible Officials – All payroll timecards were properly reviewed and signed by supervisors. The automated payroll processing report was not always reviewed by the director due to a change in personnel last year. Management has reviewed the policy with the current director and will ensure that payroll reports are reviewed regularly.

401(k) Plan Compliance – The 401(k) plan document states that all employees are eligible to participate in the retirement plan if they have one month of service and are 21 years of age. However, during the year ended June 30, 2008 participation was negotiated on a case-by-case basis as part of each employee's employment agreement. The School needs to comply with its plan document to prevent the plan from being disqualified.

Views of Responsible Officials – The 401(k) plan was not in place when the majority of staff was hired in the spring of 2007. At that time, all 3/4 time and full-time employees were offered retirement benefits in the proposed 401(k) plan. Management's intent was that the plan be implemented according to these guidelines. It was not the School's intention to pay retirement benefits to part-time employees working less than 3/4 time. The plan implemented did not follow management's original intentions. Management will allow participation in the plan to all eligible employees as documented in the plan and is redesigning the plan to better meet its original intentions.

Budgeting – We noted that the School's budgeted expenditures were less than actual expenditures in total and within many budget items. We recommend revising the budget near year end should actual expenditures differ substantially from the original budget.

Views of Responsible Officials – The change in net assets for the year was greater than the budgeted change in net assets so being over budget had no material impact to the School's finances. All major expenditures were reviewed and approved by the board even though a revised budget was not submitted. Management agrees that a revised budget should be submitted and approved by the board and will do so in the future.

The status of these comments will be reviewed as part of your next audit. We recommend management establish monitoring policies and procedures to provide the School with reasonable assurance that the School complies with various state and federal program requirements. Monitoring includes ongoing evaluations, recommendations for improvement, timely response to necessary changes, and periodic reports to management and the Board.

We appreciate being able to work with School personnel during our audit.

Squire & Company, PC

Squire & Company, PC